

## TEACHERS' RETIREMENT BOARD

### INVESTMENT COMMITTEE

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SUBJECT: Home Loan Program -  
Report on Revitalization & Enhancements

ITEM NUMBER: 8

ATTACHMENT(S): 3

ACTION: X

DATE OF MEETING: January 5, 2000

INFORMATION: \_\_\_\_\_

PRESENTER(S): Ms. Cunningham  
Mr. Woods

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#### **EXECUTIVE SUMMARY**

The fundamental objective for the CalSTRS HLP is to design a program that facilitates homeownership throughout the CalSTRS membership, while maintaining prudent investment standards. Inherent in this objective is the desire to design a program that adds value, beyond merely providing generic conventional mortgage loans, that the membership can access easily and cost-effectively through other mortgage outlets. For example, mortgage loans for new teachers and for those without an adequate downpayment are both areas to focus on as the HLP evolves.

As a result, one of the 1999/00 objectives approved for the Investment Branch is to “report on the revitalization of the HLP, highlighting the progress achieved in implementing the business plan. In addition, program enhancements are to be explored, concentrating on affordability issues, such as downpayment assistance and ‘no points/no fees’ loans.”

The CalSTRS HLP has undergone some significant changes over the past eighteen months, in an effort to revitalize the program. **Attachment 1** describes the progress made toward accomplishing the revitalization objective. For example, the number of Correspondent Lenders participating in the program has grown from two to twelve, with plans to evaluate and interview additional lenders, as appropriate. Furthermore, the HLP Policy and Procedures Manuals have been updated to reflect the current legislative mandates and are in place. Also, efforts have been made toward developing and implementing a marketing strategy for the HLP, which has included articles in member newsletters/guides and a website, dedicated to information related to the HLP. Finally, two new programs have been developed that have been designed to enhance the HLP by addressing affordability issues: 1) the “No Points/No Fees” Loan Program and, 2) the “Zero Down Preferred” Program, which represents the cooperative effort between CalSTRS and CaHLIF [the insurance arm of the California Housing and Finance Agency (CHFA)]. In summary, the CalSTRS HLP has evolved from a standard conventional mortgage loan production program to one that seeks to add value for the CalSTRS membership in such a way that addresses needs that have not yet been met, while maintaining the investment standard.

It is anticipated that, in addition to continuing implementing the Business Plan, further effort will be made going forward with respect to program enhancements through the exploration of additional new programs offered in cooperation with other state and local governments. These new programs will address affordability, recruitment, and retention issues. Furthermore, given the progress made within the HLP, as the production levels increase, exit strategies will be developed which will likely involve loan securitization and sale. With these exit strategies in place, the CalSTRS HLP will have come full circle by becoming a self-funded, profitable mortgage loan program that distinguishes itself from others by balancing the value-added for the membership with the investment goals of the System.

**Attachment 2** represents revisions to the HLP Policy Manual, which were necessitated by a recent amendment to Senate Bill 1945 (SB1945). Although much of the original language from the earlier Dave Elder Act has been retained, SB1945 is noteworthy in that it provides the Board the option of considering opening the HLP to borrowers who are not CalSTRS members. This legislation also permits the Board the option to provide one hundred percent (100%) financing to qualified members who might otherwise have no downpayment. Previously, the CalSTRS HLP was prohibited from making mortgage loans in excess of 95% of the financing secured by the purchased home.

### **RECOMMENDATION**

Staff recommends that the Investment Committee approve the revised Home Loan Program Policy Manual by adopting the attached resolution (**Attachment 3**).

## **California State Teachers' Retirement System Home Loan Program: Report on Revitalization & Enhancements**

### **Historical Overview of the Home Loan Program**

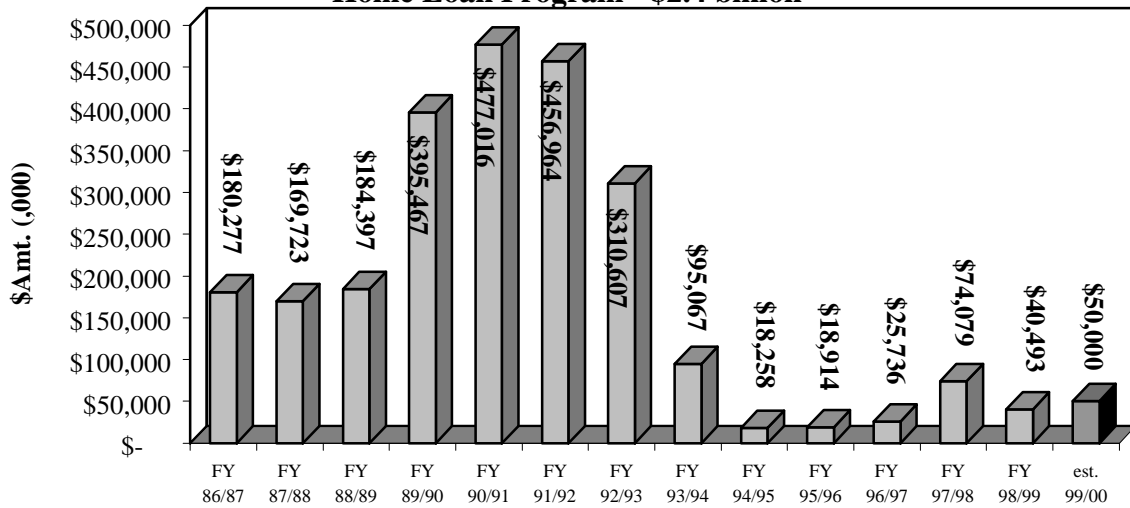
The California State Teachers' Retirement System (CalSTRS, System) Home Loan Program (HLP) was originally created as a result of legislation in 1984. This legislation provided CalSTRS the ability to facilitate home ownership for California teachers, while presenting an investment opportunity for the System's investment portfolio.

Later legislation in 1986, referred to as the Dave Elder State Teachers' Retirement System Member Home Loan Program Act (Dave Elder Act), enabled the CalSTRS Board to enter into Correspondent Agreements with private lending institutions, in order to facilitate the implementation of the HLP by originating and servicing the mortgage loans. As stipulated within those agreements, 15 and 30-year fixed interest rate conventional mortgage loans are made to members for the purchase or refinance of their one to four family, owner-occupied properties within the State of California. These mortgages are then available for inclusion in the Mortgage-Backed Securities (MBS) Portfolio or for sale, thereby providing cash flow for the funding of other investment opportunities.

Senate Bill 1945 (SB1945), which was passed into law in August 1998, and amended in 1999, represents the most recent update to the CalSTRS HLP. Although much of the original language from the earlier Dave Elder Act has been retained, the new legislation is noteworthy in that it provides the Board the option of considering opening the HLP to borrowers who are not CalSTRS members. This legislation also permits the Board the option to provide one hundred percent (100%) financing to qualified borrowers who might otherwise have no downpayment. Previously, the CalSTRS HLP was prohibited from making mortgage loans in excess of 95% of the financing secured by the purchased home.

It is estimated that, over the past thirteen years, CalSTRS' HLP has made over 21,000 mortgage loans to members, and funded approximately \$2.4 billion in loans. The following chart illustrates the amount funded each year by the HLP since inception:

### California State Teachers' Retirement System Home Loan Program - \$2.4 billion



Over the past several years, CalSTRS' HLP activity has tapered off considerably. During FY 90/91, the HLP was producing nearly \$40 million in loans each month. However, as of FY 98/99, the production had fallen to approximately \$3 million per month. This reduction can be attributed to a number of factors, including a rapidly changing mortgage market that provides borrowers with a greater number of mortgage loan options versus the traditional 15 and 30-year fixed interest rate mortgages, and the limited number of Correspondent Lenders that had been participating in the CalSTRS HLP. It is anticipated that the funding levels will pick up as a result of the implementation of the Business Plan presented to the Board in July 1999, which included strategies for meeting the 1999/2000 objective for the investment branch of revitalizing the CalSTRS HLP. Production for the current fiscal year is estimated to reach \$50 million.

### Business Plan Implementation

The fundamental objective for the CalSTRS HLP is to design a program that facilitates homeownership throughout the CalSTRS membership, while maintaining prudent investment standards. Inherent in this objective is the desire to design a program that adds value beyond merely providing generic conventional mortgage loans that the membership can access easily and cost-effectively through other mortgage outlets. For example, mortgage loans for new teachers and those without an adequate downpayment are both areas to focus on as the HLP evolves. In addition, other mortgage loan products can be offered which, when combined, result in a fully developed HLP that successfully balances both the benefit and the investment mandates.

As a result, one of the 1999/00 objectives approved for the Investment Branch is to "report on the revitalization of the HLP, highlighting the progress achieved in implementing the business plan. In addition, program enhancements are to be explored,

concentrating on affordability issues such as downpayment assistance and ‘no points/no fees’ loans.”

## **Business Plan Review**

As described within the Business Plan that was first presented to the Investment Committee in September 1998, and updated in July 1999, the revitalization effort associated with the CalSTRS HLP has taken three forms. One of the first steps in the revitalization process was to increase the number of Correspondent Lenders participating in the HLP, in order to make the program more accessible to potential borrowers throughout California. Another step involved revising and updating the HLP Policy and Procedures Manual in order to reflect the updated legislative mandates. The third step in the revitalization process was to work co-operatively with school districts, teacher associations, and other interested parties, in order to publicize and refine the overall marketing strategy of the HLP. The following is a synopsis of the status of each of the three activities:

- 1) Correspondent Lenders - Up until May 1999, all CalSTRS HLP mortgage loan applications were processed through two Correspondent Lenders: Bank of America and Norwest Mortgage. In order to expand the range of contact for the membership, the number of Correspondent Lenders participating in the CalSTRS HLP has been increased, with twelve lenders participating in the program at this time. Furthermore, almost half of the new Correspondent Lenders are Credit Unions, some of which cater exclusively to teachers. Following is a current list of Correspondent Lenders participating in the CalSTRS HLP:

- Bank of America
- Countrywide Home Loans
- Calif. Coast Credit Union
- CU Mortgage Corp.
- First Mortgage Corp.
- Lancaster Mortgage Services
- Marina Mortgage, Inc.
- Mission Federal Credit Union
- N. American Mortgage Corp.
- Norwest Mortgage Inc.
- Orange County Teachers Federal Credit Union
- The Golden 1 Credit Union

In addition, as a result of the search for additional Correspondent Lenders, staff was able to negotiate a reduction in the fees, such as servicing and origination fees, being charged for loan processing. This reduction in fees thereby enables the HLP to be more competitive by passing the savings on to the borrower in the form of less out-of-pocket costs and a better loan rate.

- 2) HLP Policy and Procedures Manual – In April 1999, the HLP Policy Manual was updated and presented for approval by the Investment Committee. This manual outlines the internally approved policies that have been designed to set boundaries to ensure prudence and care in the implementation of the HLP, while allowing sufficient flexibility in developing a program that is competitive. Policies approved by the Investment Committee cannot be altered without explicit direction from the

Investment Committee. Subsequent to the approval of the HLP Policy Manual, the HLP Procedures Manual was developed and is in place.

- 3) Marketing Strategy – The purpose of the marketing strategy, which is considered to be the cornerstone of the revitalization of CalSTRS’ HLP, is twofold: (1) to expand the range of program contact, and (2) to better inform all potential participants of the options available to them under the program. In order to accomplish this task, staff is working more closely with the new Correspondent Lenders, in order to ensure that marketing of the CalSTRS HLP is a priority and is portrayed appropriately in their marketing materials. In addition, the HLP has been publicized recently in the CalSTRS Member Handbook and the CalSTRS Bulletin. Perhaps the most significant accomplishment in this area, however, has been the development of the CalSTRS HLP website. By accessing the CalSTRS website, members can obtain general information on the HLP, see who the participating Correspondent Lenders are (along with an ability to link up to their web sites), have access to current HLP loan rates, and see the answers to frequently asked questions regarding the program.

### **Program Enhancements**

The CalSTRS HLP has traditionally offered 15- and 30- year fixed interest rate conventional mortgage loans to members for the purchase or refinance of their owner-occupied properties within the State of California. However, although CalSTRS will continue to offer competitive conventional mortgage loans for those members who like the idea of doing business with their retirement system, a secondary objective for the Investment Branch this year is to explore program enhancements, concentrating on affordability issues such as downpayment assistance and ‘no points/no fees’ loans. As a result, two new programs have been developed which have been designed to address these affordability, recruitment, and retention issues.

- 1) “No Points/No Fees” Loan Program – Quite often, the most difficult part of the home buying process is coming up with enough money for the downpayment and fees. In addition to the traditional 3-5% of the purchase price required as a downpayment, the borrower typically must pay an additional 2-3% of the purchase price of the home for closing costs. The CalSTRS “No Points/No Fees” Loan Program, which was implemented in October 1999, allows the borrower to “roll” the non-recurring portion of these closing costs into the loan amount, thereby making the out of pocket costs associated with the loan process more affordable. For example, on an average loan amount of \$100,000, the average non-recurring closing costs would total approximately \$1,800. Having the option to roll these costs into the loan amount allows the borrower to apply the cash typically needed for closing costs toward the downpayment. However, in keeping with the investment mandate for the CalSTRS HLP, these “No Points/No Fees” loans do require a slightly higher loan rate.
- 2) CalSTRS/CaHLIF “Zero Down Preferred” Program – CalSTRS and CaHLIF, the insurance arm of the California Housing and Finance Agency (CHFA), have joined to offer a special mortgage program also designed to make purchasing a home more

affordable for CalSTRS members. This program combines a traditional 95% loan-to-value first mortgage with secondary financing provided by CalSTRS equal to 5% of the value of the home. Repayment of the secondary financing is deferred for the life of the first mortgage. However, the deferred (silent) second loan accrues interest on a simple basis for the first fifteen years, and on a compounded basis for the final fifteen years, at an amount not to exceed the interest rate on the first mortgage. The second loan must be paid off when the property is either refinanced or sold, and is 100% insured by CaHLIF, thereby representing a negligible risk for CalSTRS. It is anticipated that this program will be rolled out January 1, 2000.

## **Looking Forward**

The CalSTRS HLP has undergone some significant changes over the past eighteen months. The number of Correspondent Lenders participating in the program has grown from two to twelve, with plans to evaluate and interview additional lenders, as appropriate. Furthermore, the HLP Policy and Procedures Manuals have been updated to reflect the current legislative mandates, and are in place. Also, efforts have been made toward developing and implementing a marketing strategy for the HLP, which has included articles in member newsletters/guides, as well as a website dedicated to information related to the HLP. Finally, two new programs have been developed that have been designed to enhance the HLP by addressing affordability issues; an issue that represents a need that the HLP has yet to fill. In summary, the CalSTRS HLP has evolved from a standard conventional mortgage loan production program, to one that seeks to add value for the CalSTRS membership in such a way that addresses needs that have not yet been met, while maintaining the investment standard.

It is anticipated that, in addition to continuing implementing the Business Plan, further effort will be made with respect to program enhancements through the exploration of additional new programs offered in cooperation with other state and local governments. These new programs will address affordability, recruitment, and retention issues. Furthermore, given the progress made within the HLP, as the production levels increase, exit strategies will be developed which will likely involve loan securitization and sale. With these exit strategies in place, the CalSTRS HLP will have come full circle by becoming a self-funded, profitable mortgage loan program that distinguishes itself from others by balancing the value-added for the membership with the investment goals of the System.

# **CalSTRS**

## **CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**

### **HOME LOAN PROGRAM POLICY MANUAL**

**INVESTMENT BRANCH**

**~~April, 1999~~**

***January, 2000***



**California State Teachers' Retirement System  
Home Loan Program Policy Manual**

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**California State Teachers' Retirement System  
Home Loan Program Policy Manual**

**INTRODUCTION**

The California State Teachers' Retirement System (CalSTRS) Mortgage Home Loan Program (HLP) was established in 1984 as the result of legislation that provided CalSTRS with a mortgage-backed investment opportunity, as well as an additional source of home financing for its members and retirees. Later legislation, referred to as the Dave Elder State Teachers' Retirement System Member Home Loan Program Act, enabled the California State Teachers' Retirement Board (Board) to enter into correspondent agreements with private lending institutions to facilitate the implementation of the HLP. Subsequent to the passage of that legislation, in 1986 CalSTRS began making 15 and 30 year fixed interest rate mortgage loans for the refinance or purchase of one to four family owner-occupied properties within the State of California.

~~The most recent legislation, SB 1945 (Karnette) provided an opportunity for eligible members to obtain 100 percent financing by pledging a portion of their retirement contribution. The 100 percent financing option known as a Personal Loan was created to help members who would otherwise not be able to secure the downpayment required to purchase a home.~~

*Senate Bill 1945 (SB1945), which was passed into law in August 1998, and amended in 1999, represents the most recent update to the CalSTRS HLP. Although much of the original language from the earlier Dave Elder Act has been retained, the new legislation is noteworthy in that it provides the Board the option of considering opening the HLP to borrowers who are not CalSTRS members. This legislation also permits the Board the option to provide one hundred percent (100%) financing to qualified borrowers who might otherwise have no downpayment.*

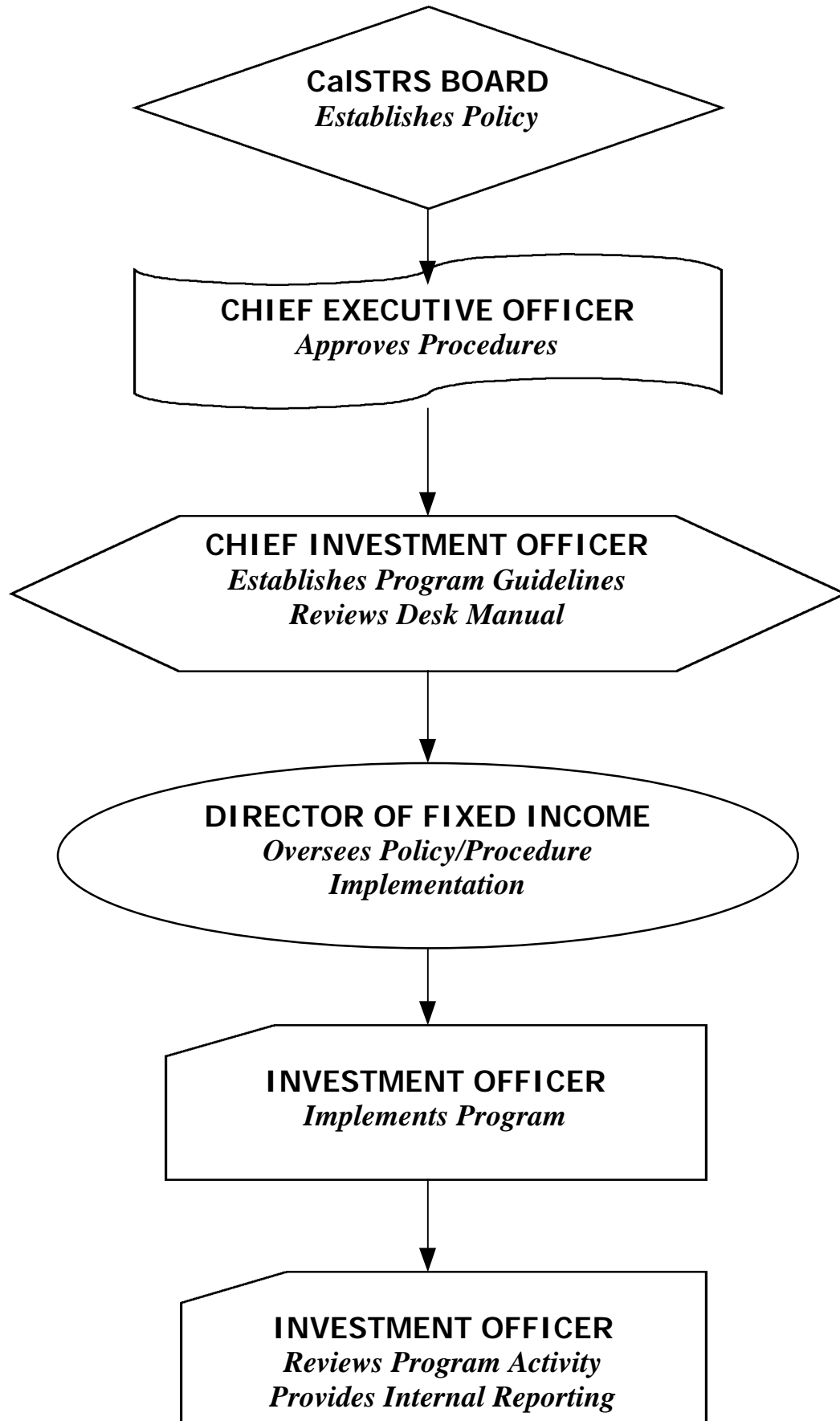
Following are some of the features of the CalSTRS HLP:

- Competitive loan rates on a variety of mortgage loans.
- Highly experienced correspondent lenders working with program participants.
- Availability of purchase or refinance plans.
- ~~Ability to borrow against the employee's contributions credited to his or her retirement account in order to secure a downpayment for a home (Personal Loan)~~  
*participate in loan programs designed to address affordability issues.*

This policy document represents the internally approved policies of CalSTRS' HLP, which have been designed to set the boundaries for the management and oversight of the

program. A flow chart is included to provide the context for the policies within the general process of implementing the HLP. Words and terms that may be unfamiliar to the reader are referenced in the Glossary.

# HOME LOAN PROGRAM FLOWCHART



**California State Teachers' Retirement System  
Home Loan Program Policy Manual**

**HOME LOAN PROGRAM POLICIES**

***April 1999 January 2000***

This document outlines the internally approved policies for the management of CalSTRS' HLP. These policies are designed to set the boundaries that will ensure prudence and care in the implementation of the program, while allowing sufficient flexibility in developing a program that is competitive and that will provide ~~specified members with~~ up to 100 percent home loan financing. Policies approved by the Board cannot be altered without explicit direction from the Board.

1. Laws and Statutes - As stated within Section 22360 of the Teacher's Retirement Law, notwithstanding any other provision of law, the Board may, pursuant to Section 22203 and in conformance with its fiduciary duty set forth in Section 22250, enter into correspondent agreements with private lending institutions within California to utilize the retirement fund to invest in residential mortgages, including assisting members, through financing, to obtain homes within the state. Furthermore, the Board shall include a procedure whereby a borrower may obtain 100 percent financing for the purchase of a single family dwelling within specified criteria.
2. Program Objectives - The criteria and terms for CalSTRS' home loans shall be consistent with the financial integrity of the program and the sound investment of the retirement fund. Appropriate administrative costs of implementing this program shall be paid by the participating borrowers. These costs may be included in the loan amount.
3. Loan Rates - Loan rates shall be periodically reviewed and adjusted as described within the Procedures and Desk Manuals to provide home loans to borrowers consistent with the financial integrity of the HLP and the sound and prudent investment of the retirement fund. Under no circumstances, however, shall the interest rates offered to borrowers be lower than the market rate.
4. Authorized Signers - Authorization letters that indicate who may sign on behalf of CalSTRS shall be delivered to the appropriate parties. Whenever a change in authorized signers occurs, the affected parties shall be notified within 24 hours, in the event of termination, and as soon as possible, in the event of a newly authorized signer.
5. Business Plan - The HLP will be managed in accordance with a Business Plan which will be prepared on an annual basis and will describe CalSTRS' goals for the HLP and will include a plan for achieving such goals over the subsequent twelve month period.

6. Delegation of Authority - The implementation of CalSTRS' HLP is delegated to staff within the boundaries established by these policies and the processes outlined in the Procedures Manual.
7. Reporting - *Staff will prepare monthly reports for the Chief Investment Officer which summarize the activities associated with the management of the HLP. The reports shall provide information regarding loan production, loan rates, and performance measurement.*
8. Board Review - The Board shall administer and review this policy periodically, as it deems appropriate and in keeping with the investment standard.

### **MORTGAGE LOANS**

9. Property Types - Mortgage Loans shall be made available to borrowers for *the purchase or refinance of single-family dwellings, two-family dwellings, three-family dwellings, four-family dwellings, single-family cooperative apartments, and single-family condominiums.*
10. Terms and Conditions - Mortgage Loans shall be made available under the following terms and conditions:
  - a) Borrowers shall occupy the homes as their principal residence.
  - b) Home loans shall be secured primarily by the property ~~acquired~~ *purchased or refinanced, and shall not exceed the appraised value of that property.*
  - c) Home loans shall be available only for the purchase or refinance of homes in the State of California.
  - d) In no event shall the loan amount exceed three hundred fifty thousand dollars (\$350,000).
  - e) Prepayment penalties may be assessed on the Mortgage Loans in accordance with the rules and regulations established by the Board.
11. Loan-to-Value Ratios (LTV) - The terms and conditions shall provide a loan-to-value ratio ~~as follows of up to 100 percent of the appraised value of the property.~~
  - a) ~~For purchase or refinance of single-family and two-family dwellings, the maximum LTV shall be 95 percent.~~
  - b) ~~For purchase or refinance of three-family dwellings and four-family dwellings, the maximum LTV shall be 90 percent.~~

- ⊖) The portion of any loan exceeding 80 percent of value shall be insured by an admitted mortgage guaranty insurer conforming to Chapter 2A (commencing with Section 12640.01) of Part 6 of Division 2 of the Insurance Code, in an amount so that the unguaranteed portion of the loan does not exceed 75 percent of the ~~fair~~ market value of the property, *together with improvements thereon.*

12. Investment Limitations - The following *daily* limits apply with respect to the approval of ~~mortgages~~ *trade activity* within the HLP:

- a) ~~For those loans which conform to FNMA/FHLMC Guidelines:~~
- Investment Officer I - May approve up to \$5 million in loans per day.
  - Investment Officer II - May approve up to \$10 million in loans per day.
  - Investment Officer III - May approve up to \$20 million in loans per day.
  - Director of Fixed Income - May approve up to \$50 million in loans per day.
  - Chief Investment Officer - May approve up to \$100 million in loans per day.
- b) ~~For those loans which are non-conforming to FNMA/FHLMC Guidelines:~~
- ~~Investment Officer I - May approve up to \$1 million in loans per day with a dual review by an Investment Officer II or higher.~~
  - ~~Investment Officer II - May approve up to \$5 million in loans per day with a dual review.~~
  - ~~Investment Officer III - May approve up to \$10 million in loans per day with a dual review.~~
  - ~~Director of Fixed Income - May approve up to \$25 million in loans per day with a dual review.~~
  - ~~Chief Investment Officer - May approve up to \$100 million in loans per day with a dual review.~~

13. Trade Processing - *Prior to being processed to Operations, all trade tickets shall be authorized within the limits noted above, and countersigned by two investment officers within Fixed Income.*

### **PERSONAL LOANS**

14. Eligibility - Personal Loans permitted under this policy shall be made available only to ~~currently employed members who are required to make contributions to, and are not receiving any benefits from, the System~~ *those who are entitled to receive an allowance funded by the System, notwithstanding any vesting requirement and without regard to present eligibility to retire, and who are not retired or disabled.*
15. Terms and Conditions - Personal Loans permitted under this policy shall be made available under the following terms and conditions:

- a) The member shall obtain one loan with a loan-to-value ratio not to exceed 95 percent, secured by the purchased home, and a Personal Loan with a loan-to-value

- ratio not to exceed 5 percent. The Personal Loan shall be secured by a portion of the accumulated retirement contributions in the member's individual account.
- b) The 5 percent Personal Loan shall only be used for the purchase of the member's principal residence and not for a loan to refinance the member's existing mortgage.
  - c) In no event shall the loan amount, including the Personal Loan secured by the accumulated retirement contributions in the member's individual account, exceed three hundred fifty thousand dollars (\$350,000).
  - d) In no event may the Personal Loan secured by the accumulated retirement contributions in the member's individual account exceed the lesser of: 50 percent of the current value amount of the accumulated contributions or fifty thousand dollars (\$50,000).
  - e) ~~The members participating in the Personal Loan portion of the HLP shall pay appropriate administrative costs of implementing this policy. Those costs may be included in the loan amount. (NOTE: This item was addressed in Policy #2.)~~
  - e) *If two members are married, the Personal Loan secured by the sum total of accumulated retirement contributions in both members' accounts shall not exceed five (5) percent of the loan*
16. Pledge of Security - The pledge of security for the Personal Loan permitted under this policy shall remain in effect until the loan is paid in full, within the following constraints:
- a) If the member is married at the time the home is purchased with a Personal Loan secured by the member's accumulated retirement contributions, then the member's spouse shall agree in writing to the pledge of security, as to his or her community interest in the amount pledged, regardless of whether title to the home is in joint tenancy.
  - b) The pledge of security under this policy shall take binding effect. In the event of default on the Personal Loan, the System may recover the pledge amount pursuant to Policy ~~#15~~ #17 and implementing procedures.
17. Default Provisions - In the event of a default on the Personal Loan, the Board may take action to recover the pledge amount. ~~In the event of an application for refund or separation from service by a member, the member's account will be reduced by the pledge amount prior to distribution. In the event of an application for retirement benefits, an amount (amortized over a specified time) will be deducted from the member's benefit until the amount pledged as security is paid in full.~~



- a) *In the event of a default on the personal loan secured by the member's retirement contributions, the Board shall deduct an amount from the member's accumulated retirement contributions on deposit and adjust the member's accumulated retirement contributions as necessary to recover any outstanding loan balance prior to making any disbursement of a refund or a lump-sum distribution.*
- b) *In the event of a default on the personal loan by a member, the Board shall deduct the monthly principal plus appropriate interest from the member's benefit, when the member begins receiving a benefit, until the loan is paid in full.*
- c) *In the event of a default on the personal loan by a member receiving a benefit, the Board shall deduct the monthly principal and interest from the member's benefit until the personal loan is paid in full.*
- d) *In the event of a refund or lump-sum distribution of the accumulated retirement contributions, the member's account shall be adjusted as necessary to recover any outstanding loan balance.*

**California State Teachers' Retirement System**  
**Home Loan Program Policy Manual**  
**GLOSSARY**

**ACCUMULATED EMPLOYEE CONTRIBUTIONS:** The employee's contribution account that includes the member's retirement contributions and any accrued interest. This account does not include the employer's contribution.

**BOARD:** The California State Teachers' Retirement System Board of trustees.

**CORRESPONDENT AGREEMENT:** The contract between CalSTRS and a private financial institution that originates and services loans, which describes the respective duties of each party.

**CORRESPONDENT LENDER:** The private financial institution that originates and services home loans for CalSTRS' borrowers.

**DEFAULT:** A member is in default when the payment due on the Personal Loan has not been remitted for 120 days.

**ELIGIBILITY:** The secured Personal Loan permitted under this portion of the HLP will be made available ~~only to currently employed members who are not receiving any type of payment from CalSTRS. This restriction includes, but is not limited to, members who are on disability, in retirement status, or members who are inactive; those who are entitled to receive an allowance funded by the System, notwithstanding any vesting requirement and without regard to present eligibility to retire, and who are not retired or disabled.~~

~~**FNMA GUIDELINES:** The specifications required by the Federal National Mortgage Association (Fannie Mae) in order to be eligible for guarantee as to principal and interest payments. The Federal National Mortgage Association is a private corporation, federally chartered to provide financial products and services that increase the availability and affordability of housing for low-, moderate-, and middle-income Americans.~~

**LOAN RATE:** The cost of using money, expressed as a rate per period of time.

**LOAN TO VALUE RATIO:** The ratio of the loan amount to the appraised value of the property. Example: A property with a loan of \$80,000 and an appraised value of \$100,000 results in a loan to value of 80%.

~~**NON-CONFORMING:** A loan not eligible for guarantee as to principal and interest by FNMA or other federally chartered housing agency, based upon the borrower's qualifying ratios and/or loan amount.~~

**PERSONAL LOANS:** The 5 percent financing that CalSTRS will loan to its members in order to finance the down payment on the purchase of a single family dwelling in California.

**PLEDGE AMOUNT:** The total amount of the Personal Loan. This is the loan amount, plus all accrued interest, calculated at the time of loan origination.

**PREPAYMENT PENALTY:** A monetary penalty assessed against the borrower, designed to inhibit the borrower's ability to refinance.

PROPOSED  
RESOLUTION OF THE  
CALIFORNIA STATE TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

SUBJECT: Home Loan Program Policies

Resolution No. \_\_\_\_\_

WHEREAS, the Investment Committee of the California State Teachers' Retirement Board is responsible for recommending to the Board, investment policy and overall investment strategy; and

WHEREAS, the Investment Committee has received and reviewed the Home Loan Program Policies and has heard oral presentations from Staff; and

WHEREAS, the Staff has recommended the adoption of the Home Loan Program Policies; Therefore be it

RESOLVED, that the Investment Committee of the California State Teachers' Retirement Board adopts the Home Loan Program Policies.

Adopted by:  
Investment Committee  
on

\_\_\_\_\_

\_\_\_\_\_  
James D. Mosman  
Chief Executive Officer